

A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics, titled:

A forced disrupt: “The next normal” for the cruise consumers

A project carried out as part of the Master's in Finance and Management under supervision of: Professor José Miguel Pita.

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Abstract

The purpose of this Master's thesis is to analyse the impact of COVID-19 on cruise consumption and how the industry can redesign itself to be prepared to mitigate the pandemic risks in a bubble as a cruise ship is, in order to regain consumers' confidence. There is a huge need to guarantee all health and safety related measures and to make it possible, the key is investing in digital transformation.

This project was possible to complete by gathering and evaluating secondary and primary data from which I could draw some findings. This being said, as the project was conducted during times of uncertainty and unpredictability of the evolution of the pandemic, the current and forecasted findings can easily outdate and should be interpreted as short-term conclusions and recommendations.

Keywords: cruise consumption, demand, COVID-19, pandemic, challenges, consumer sentiments

Chapter 5:

The Cruises consumption before, during and after COVID-19



Key question

“When and how will the consumption of cruises rebound and how the cruising experience will be in the next normal?”

Structure

Research questions

Methodology

5.1.



Cruise consumption prior to the pandemic

What characterised cruise consumption before COVID-19?

- How has cruise demand performed in the last years?
- Who are the cruises and where do they go?
- A slight modernization of the sector: Can it catch the younger generation?

- Online research
- Cruise operators' Annual Reports 2015-2019

5.2.



COVID-19's impact on cruise consumption

What are the impacts of the pandemic on cruise consumption?

- To which extent has the pandemic impacted the cruise demand?
- How has it impacted consumer sentiment and preferences?

- Online research
- Cruise operators' Annual Reports 2015-2019
- Consumer sentiment survey

5.3.



Cruise consumption in “the next normal”

How will the cruise experience look like “the next normal”?

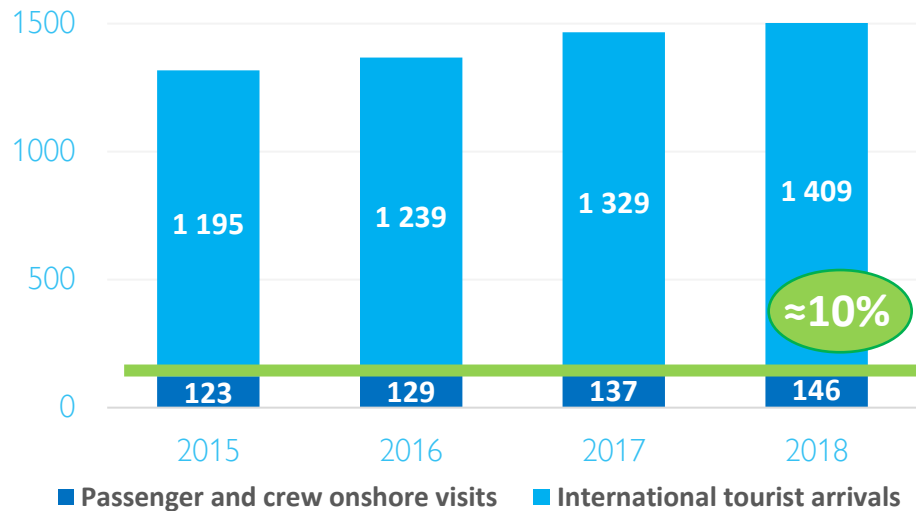
- How will COVID-19 impact the customer journey?
- Will the imposed requirement be enough?
- Do consumers want to sail again? Is there still hope?

- Online research
- Cruise operators' forecast report 2020

The global cruise industry was booming

A small...

Total passengers and crew onshore visits^{183,184,185} vs. total international tourist arrivals¹⁸⁶

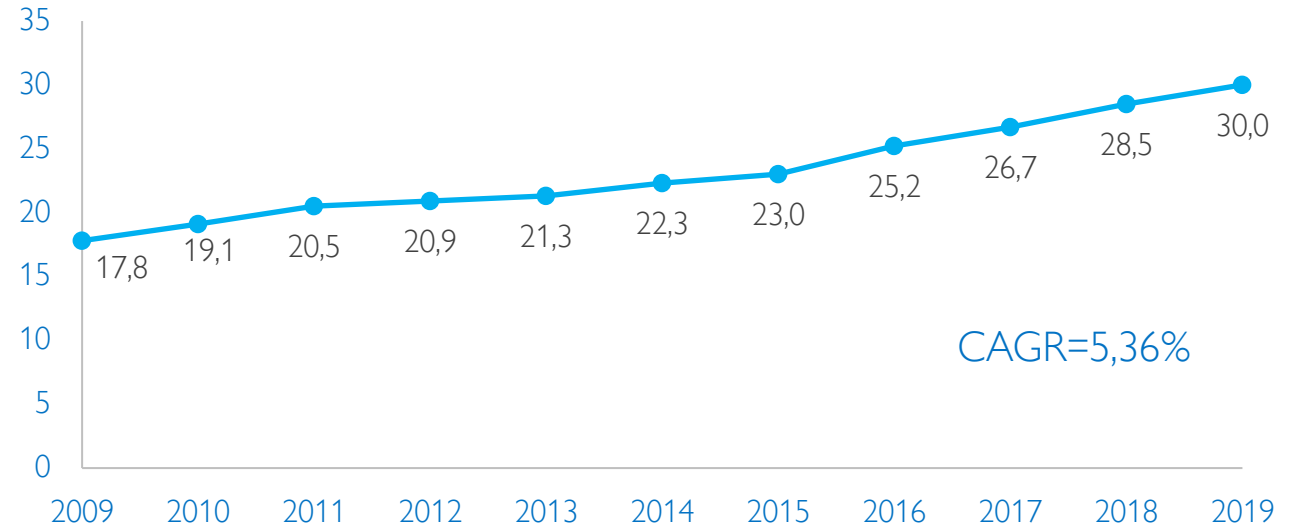


- Cruise tourism remains a relatively small tourism segment in terms of onshore arrivals compared to worldwide tourism arrivals, as cruise passenger visits has been representing only around 10% of total international tourist arrivals for several years.
- This pattern is completely understandable as, while cruises are considered a way to spend your holidays, flights are needed to move not only to the point of origin of the cruise trip, but also directly to tourism destinations or as a way to move for business affairs.



...but a growing sector

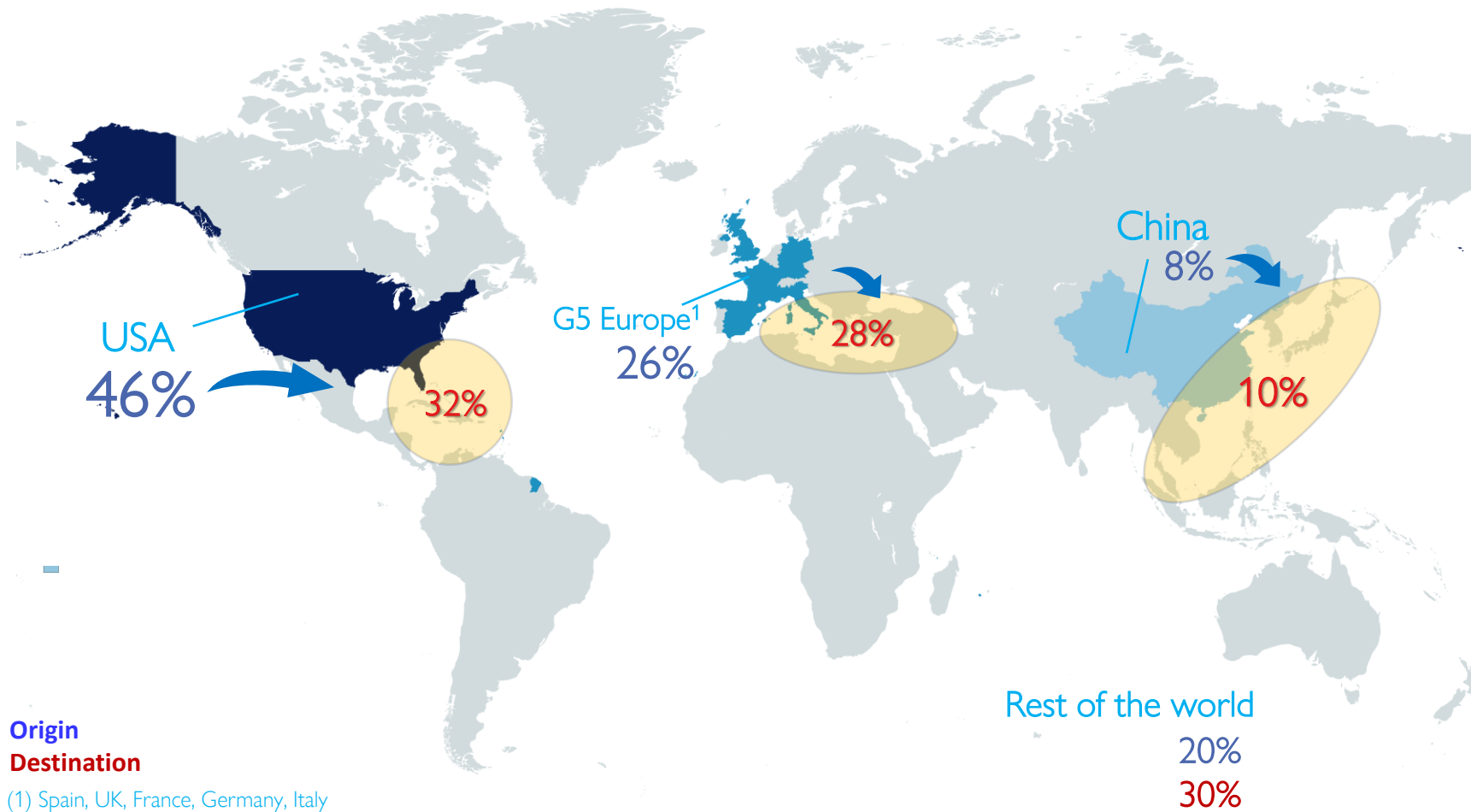
Ocean cruise passengers worldwide (in millions)¹⁸⁷



- Nevertheless, up until 2020, cruise tourism was the fastest-growing sector within the tourism industry, with a passenger compound annual growth rate of about 5,36% in the last decade. This growing pattern can be explained by the innovations made in this sector that are gaining millennials' interest in cruise travel.
- As Millennials are in short steps outpacing Boomers, making 1.8 billion (a quarter of worldwide population)⁶, cruise operators are trying to catch their interest in cruising. The World Data Lab forecasts that Millennials will be the principal consumer generation¹⁸⁸, as a result, the world is trying to shape to their needs by refurbishing and restructuring the cruise ships and adjusting to unique and exotic experiences and destinations.

The bigger consumers choose nearby destinations

Leading passenger source countries in the global cruise industry^{185/187}

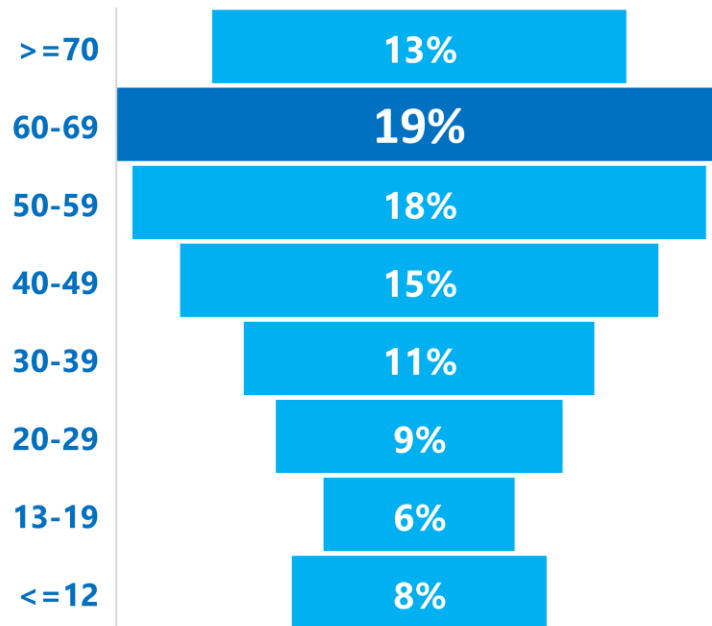


- The **cruise market** is highly geographically **focused in three key areas**.
- **USA** is the biggest cruise market, followed by G5 Europe and China. The main destination for **USA** cruisers is the **Caribbean area**, while Europeans travel mostly in Europe and Chinese cruisers around China and nearby Asian area.
- The North Americans are the main consumers, **but there is a progressively changing customer base toward emerging countries and Europe**.

Cruise market is modernizing but older and wealthier people are still the main cruise costumers

A tourism preferred by the elders

Average passenger age group, 2016-2018¹⁸⁹

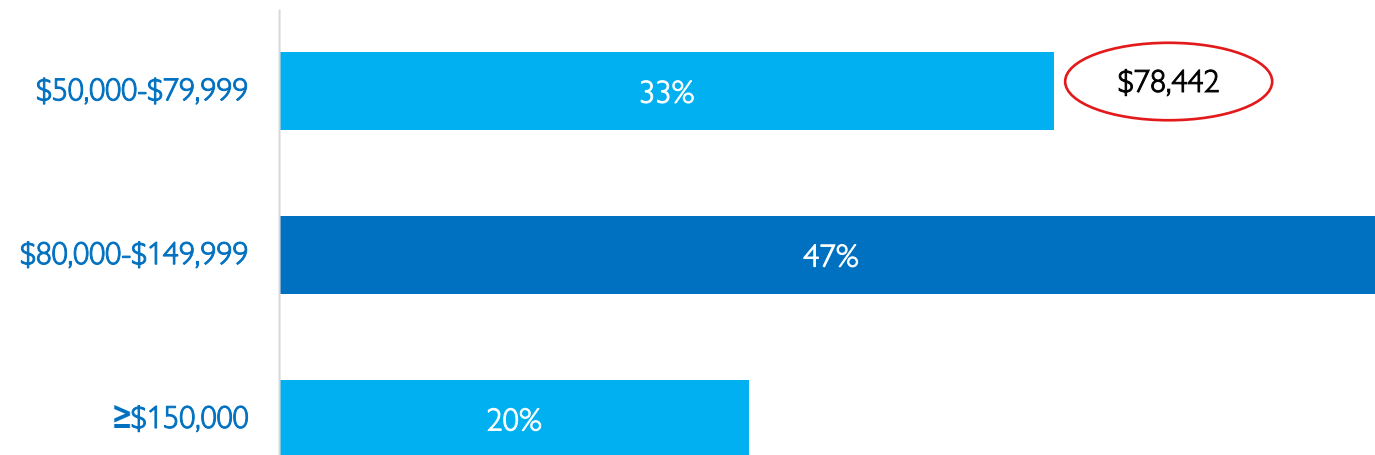


- Cruise tourism has **always attracted mostly the older generation**, who usually has more disposable income and time, and in terms of age group share it hasn't changed a lot in the last years.



A tourism for wealthy ones

Cruisers by annual income range, 2017¹⁹⁰



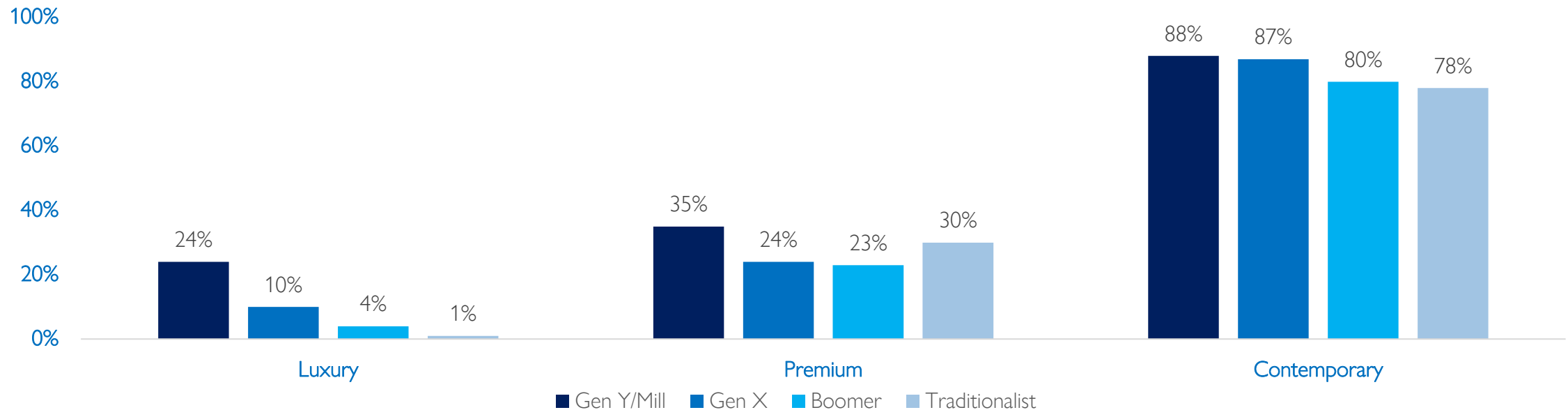
○ Median USA middle class household's annual income

- According to Pew Research Center, **52% of American adults live in "middle class" households¹⁹¹** and the median income of that group was \$78,442 in 2016.
- This being said, **income is still one of the most important variables when considering a cruise vacation**, as 67% of cruise passengers in 2017 had an annual income higher than the median USA middle class.
- Despite this, companies are making an effort on **trying to capture the attention of middle class and younger passengers**.

Millennials are the ones that raise the revenues – an opportunity to seize

There seems to be a negative correlation between age and spending

Most and Least Used Cruise Class by Generation¹⁹⁰



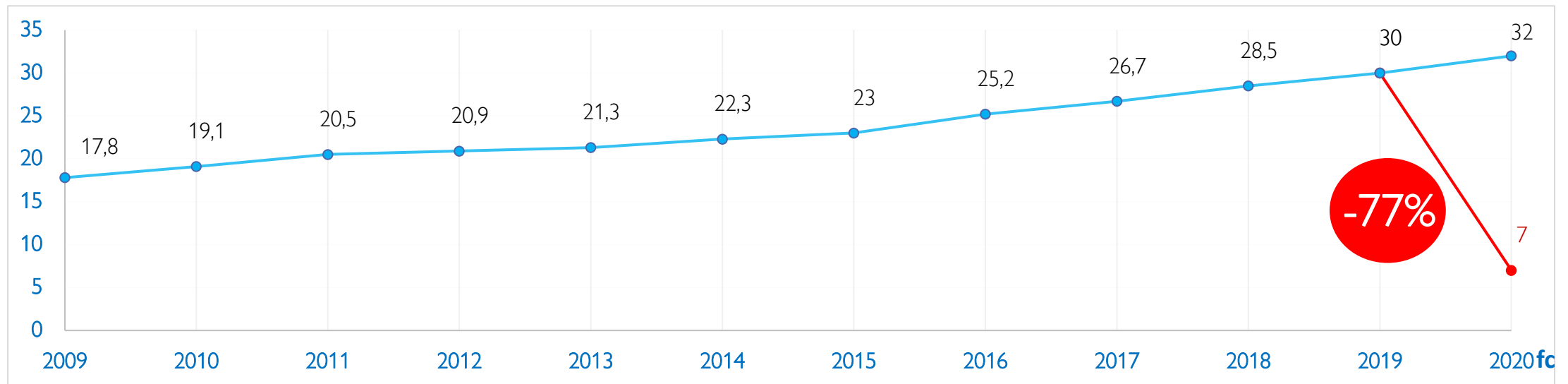
- When talking about the effort promoting and modernizing the industry to younger people, although the share of Gen Y and Millennials didn't increase, the effort has been successful in terms of revenue added by them. [This generation makes a share of only 20% within the worldwide passengers¹⁸⁹](#), but they are the ones that value the most the premium market.
- While the contemporary cruises are the most popular option, within the luxury and premium classes, the Generation Y and Millennials are the ones that take a lead comparing to older generations.

The fear of COVID-19 has drastically affected the demand for cruises

Within Travel&Tourism, few sectors have been hammered as hard as cruise. With many onboard Coronavirus outbreaks, the industry was brought to a standstill in mid-March. This made the number of passengers decrease around 77% relatively to the previous year.¹⁹³

The demand after the first trimester went to almost none

Ocean cruise passengers worldwide (in millions)¹⁸⁷,



- Previous crises – either financial crises like that of 2008 or even health-related crises like SARS in 2003 – showcased the cruise industry ability when it came to crisis management and damage-control.
- This time around the story seems quite different, as the industry not only lost customers due to their [own fears of travelling](#) but also due to the [worldwide governments' free-movement restriction policies](#) that completely tied the industry's hands for the fight against the crisis, impeding it to sustain its effects, like it had previously managed to succeed.

In order to understand how consumers are currently feeling about COVID-19 as well as how they envision the next normal, we conducted a survey

Survey overview

Approach and implications

- Fielding occurred between October 29 through November 3
- The survey was distributed through private networks on WhatsApp, LinkedIn and Facebook.

Key figures and numbers



248 respondents



45% below 30 years old
55% above 30 years old



66% female | 34% male

** Please note that the results of this survey should be taken very cautiously due to the high levels of unpredictability associated with this disease as well as its continuous development. At the current point in time (January 5th 2021), we face a third wave with new, more severe mutations occurring throughout the world, which has undoubtedly caused a shift in consumer sentiment.*

Sources:

NOVA SBE Master's Survey: 29/10 – 03/11, n = 248

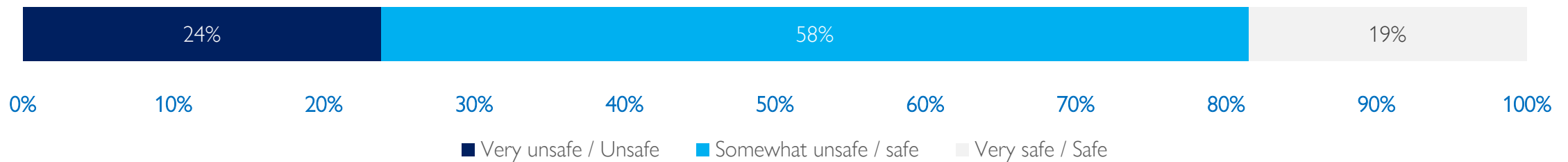
Chapter 5: Cruises, consumer side

Before COVID-19 During COVID-19 The next normal

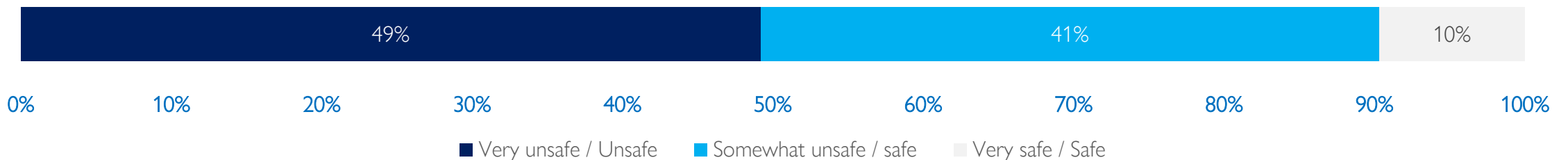
People don't feel safe from COVID-19 being on a cruise

While the majority of people feel somehow safe/unsafe in their everyday life, when talking about being on a cruise the picture is quite different. Most people don't consider cruise a safe place to be, so there is a long way to instill confidence in people.¹⁹⁴

How safe do you feel from COVID-19 in your everyday life?



How safe do you feel from COVID-19 being on a cruise?



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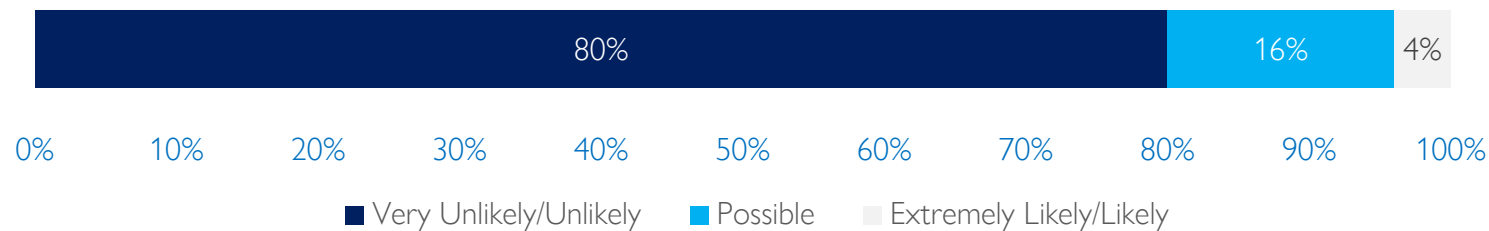
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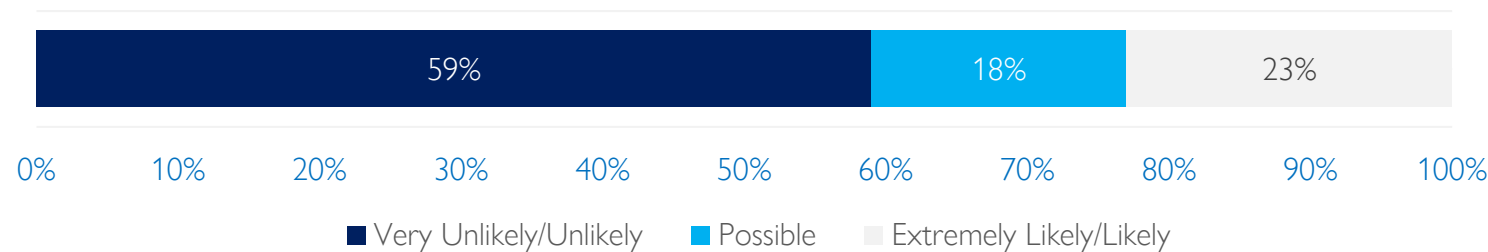
Cruisers are more receptive to go on a cruise again

Even if non-cruisers had the possibility, financial means and willingness, they still would not go on a cruise trip within the next 6 months. However, there is a big trust difference when talking about people who already been on a cruise before, where near half of them are open to that possibility.¹⁹⁴

Non-cruisers: If you had a chance and will, would you go on a cruise within the next 6 months?



Cruisers: If you had a chance and will, would you go on a cruise within the next 6 months?



The unfamiliarity generates lots of fear in people that never been on a cruise before. But there is still a share of 20% of people, that never cruised before and are open to this possibility¹⁹⁴. All these 20% are can be very valuable as 63% of them are below 40 years old¹⁹⁴ and, non risk generations.

However, in different companies it is true that cruise customers are very supportive clients and are eager to sail again. Having a loyal customer base is fundamental and it gives a little of hope for future recovery, although it doesn't sustain a still industry like this one.

Sources:

NOVA SBE Master's Survey: 29/10 – 03/11, n = 248

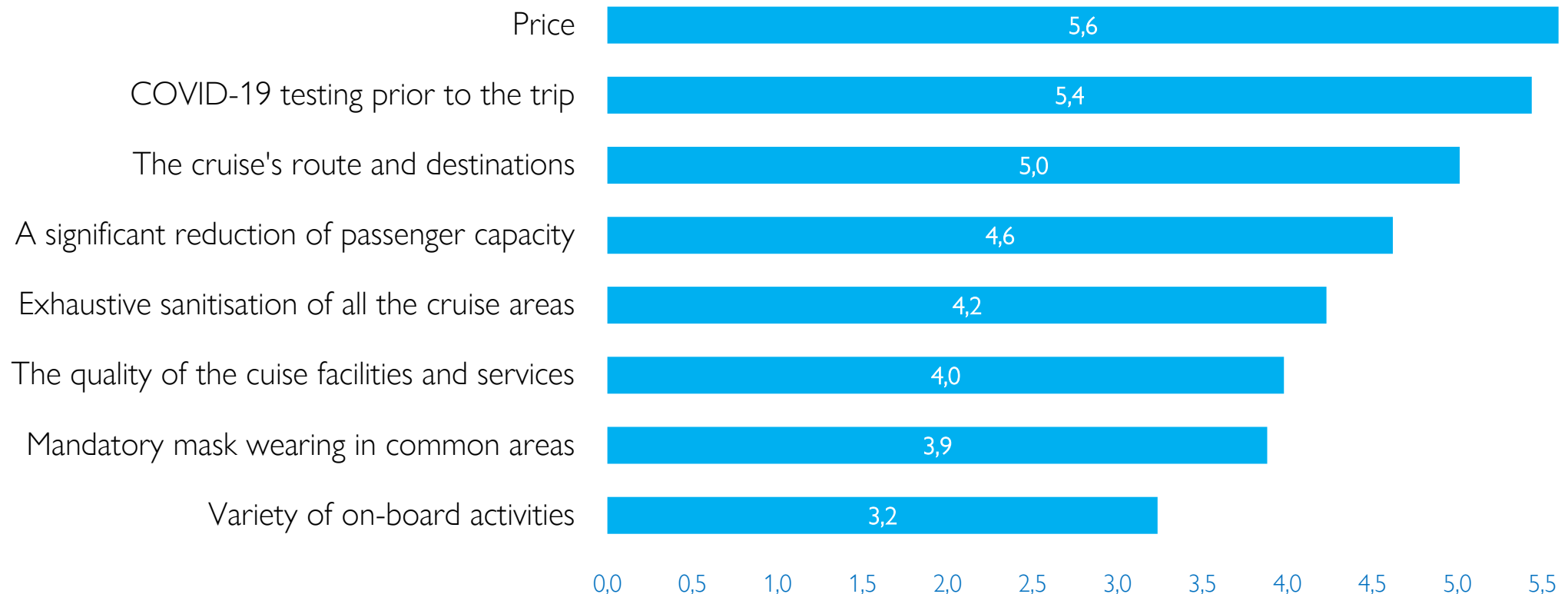
Chapter 5: Cruises, consumer side

Before COVID-19 During COVID-19 The next normal

COVID-19 testing is more important than the destination

Even though that price is still the main factor, people look at when choosing a cruise, the implementation of COVID-19 testing is now also a deciding aspect. Also, the passenger capacity reduction and sanitisation are considered even more important than the quality of cruise facilities/services and the variety of on-board activities.

Cruise factors important to consumers¹⁹⁴



Sources:

NOVA SBE Master's Survey: 29/10 – 03/11, n = 248

Chapter 5: Cruises, consumer side

Before COVID-19 During COVID-19 The next normal

Cruise operations have been working in instilling passenger confidence from a health safety perspective

“Collaboration, not competition” – leaders of the industry and related associations are working together in finding the best solutions to resume cruising in a safe and controlled environment

Core health procedures recommended by CDC¹⁹⁵



Main changes on cruise experience discussed¹⁹⁶

Testing

- Implementation of mandatory testing for all passengers and crew for COVID-19 prior to embarkation.

Medical Capability

- Risk based response plans considering each ship.
- Dedicated capacity allowed for isolation.
- Additional medical staff onboard.

Ventilation

- Air management strategies to improve fresh air onboard and other technologies to mitigate risks

Social-Distancing

- In terminals.
- Managed group sizes onboard, shore excursions and destinations..

Mask-Wearing

- Mandatory wearing of masks by all passengers and crew onboard and during excursions whenever physical distancing cannot be maintained.

Changing dining experience

- Abolishment of traditional buffets and self-service areas.
- **Solution:** Table service.

Shore Excursions

- Shore excursions must meet strict protocols agreed between cruise lines and destination.
- **Solution:** Disembarkation terms of creating a “bubble”.

Reduced length of cruises

- A panel of experts assembled by RCC and NCLH recommend shorter cruises.
- **Solution:** Trip lengths of no more than 10 days at the beginning of operations.

Occupancy limitation

- Cruises won't be able to sail at full occupancy.

First step in a staggered resumption of cruise operations

CDC lifted the “No-Sail” order for cruises November 1st however cruise lines are not allowed to organize commerce sails until they meet all the requirements and are granted a conditional Covid-19 sailing certificate issued by the CDC.

Framework for Conditional Sailing¹⁹⁵

- Requirements **for testing crew members** to ensure adequate health and safety protections for crew.
- Build **laboratories** with the needed capacity to test future passengers.
- **Simulated trips** with volunteer passengers to test the cruises’ ability to mitigate the illness risk.



As they start to sail, cruises have only one shot to do it right¹⁹⁷

- After the preconditions are met, cruises can start to operate (mock trips) under CDC requirements.
- These requirements can continuously be changing and CDC, if necessary, can command a cruise ship to immediately stop the test cruise.
- After the simulated cruise voyage is completed, the cruise line must send a report, which will be reviewed by the CDC. And if it is accepted, the cruise operator will be given a **COVID-19 Conditional Sailing Certificate**, allowing them to organize commerce sails.

Will this be enough? What is next?

Everything relies now on how well cruise operators will be prepared and how soon we can expect a working vaccine.

The truth is that with the latest news about Pfizer’s late-stage vaccine with nearly 95% effectiveness, bookings and searches for cruises hit the peak of the year.

However, the change on this industry: the **reconfiguration of ships, changing itineraries and new health and safety requirements** might have **come to stay**.

A speck of light at the end of the tunnel

The situation so far is that almost all cruise continue to be in standstill and their destiny depends not only on how good they can prepare themselves but also on what authorities in each country decide and how soon we can expect an effective vaccine. However, there are still signs to a possible 2021 cruising restart.



Late news of
effective vaccines



Cruises are better prepared
on health and safety issues



Travellers are more health
and safety conscious



The urge to cruise is
starting to increase

- Pfizer is claiming a **95% effective vaccine**¹⁹⁵ being ready by the end of 2020, and UK, a hotspot for COVID-19 has already accepted to start vaccinating as soon as possible the older and people at risk. This new reflected in a boom for cruise bookings for 2021 and 2022.
- With the lockdown, cruises had time to rethink their operations and start to meet all CDC requirement's, which gave the **passengers more confidence** and most importantly the **ability to prevent and control the virus**.
- Also, travellers are **more conscious** about the virus and health, respecting more the rules. This effort of two sides can make it possible to restart sailing in 2021.
- With near 1 year of lockdown and restrictions **people are eager to leave their homes** and remote works to feel the freedom. When Royal Caribbean announced the opportunity for people to volunteer to go on a mock trip, just in few hours they reached 100 000 applications.¹⁹⁶



Cruise consumption prior to COVID-19

1. Cruise consumption, although being not so significant, **10%** comparing with airlines consumption, has a **high compound annual growth rate of 5.36%**.
2. It is a sector that has always been characterized by **older and wealthier kind of passengers**.
3. However, cruise operator are trying to modernize the industry **and reach younger generations** that can be a good opportunity.
4. It was found that **younger generations** are who **spend the most**, choosing more expensive and higher quality cruise ships than the other generations.



Cruise consumption during COVID-19

1. With COVID-19, the cruises had to completely stop, and **the demand decreased near 80%** for the whole 2020 year.
2. People that never been on a cruise before are very afraid of cruises. But there is still hope for the future demand as cruise operators have a **really loyal client base and they are eager to restart cruising**.
3. People started to give a lot of **importance to health measures when choosing a trip**. **Passenger capacity reduction** and **sanitisation** are considered even more important than the quality of cruise facilities/services and the variety of on-board activities.



Cruise consumption in “the next normal”

1. To be allowed to sail again in the future, CDC calls for a list of requirements to meet before a cruise operator is issued a **Covid-19 Conditional Sailing Certificate**.
2. Cruise industry has already started to try to **meet these requirements**. They hope that these measures will instil consumers' confidence again.
3. These requirements might **change this industry forever**: the reconfiguration of ships, changing itineraries and new health and safety requirements might have come to stay.
4. **Younger generation** not only can be the revenue drivers as they like luxury, but also, that are a good opportunity as they are not a generation that are considered as risk group and they can be the **first to sail again**.

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